

**Incurred Costs Audit for  
Fiscal Year 2001**

**August 2003**

**Reference Number: 2003-1C-167**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

August 25, 2003

MEMORANDUM FOR DAVID A. GRANT  
DIRECTOR OF PROCUREMENT  
INTERNAL REVENUE SERVICE

FROM: Daniel R. Devlin  
Assistant Inspector General for Audit (Headquarters Operations  
and Exempt Organizations Programs)

SUBJECT: Incurred Costs Audit for Fiscal Year 2001  
(Audit #200310002.041)

The Defense Contract Audit Agency (DCAA) examined the contractor's May 15, 2003, revised certified final indirect cost rate proposal and related books and records for reimbursement of Fiscal Year 2001 incurred costs. The purpose of the examination was to determine the allowability and allocability of direct and indirect costs and establish audit determined indirect costs rates for January 1, 2001, through December 31, 2001. The proposed rates apply primarily to flexibly-priced contracts.

The DCAA examination of the incurred cost rate proposal disclosed questioned costs. The DCAA adjusted the General and Administrative base for the management allocation questioned in the contractor's overhead and Government overhead pools. The DCAA does not consider these costs to be subject to penalties.

The DCAA stated that the contractor's proposed indirect rates are acceptable as adjusted by their examination. Additionally, except for potential assist audit subcontract adjustments concerning subcontract costs, the DCAA considers all remaining claimed direct costs to be acceptable and are provisionally approved pending final acceptance.

The DCAA has not received the results of the assist audits of subcontract costs. Therefore, the DCAA qualified its audit report.

The information in this report should not be used for purposes other than those intended without prior consultation with the Treasury Inspector General for Tax Administration regarding their applicability.

If you have any questions, please contact me at (202) 622-8500 or John R. Wright, Director at (202) 927-7077.

Attachment

# NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 U.S.C. § 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

*The TIGTA seal was removed due to its size.*